



Dear Contractor:

On the reverse side of this document is a letter prepared by the Nebraska Department of Revenue to assist you in explaining to your customers the new requirements for the taxation of contractor labor. A copy of this letter may be given to any customer who has questions regarding either your requirement to collect sales tax or how the amount of tax must be calculated. If you or your customers have any questions, please contact Taxpayer's Assistance at 1-800-742-7474 (toll free in Nebraska and Iowa) or 1-402-471-5729, or contact one of the department's regional offices listed below.

Also enclosed is a new notice, "New Sales Tax Laws Affecting Contractors Beginning July 1, 2004," which explains in detail the changes enacted earlier this year by the Legislature (LB 1017) which impact the taxation of contractor labor. More information on these changes can be obtained from the department's Web site at **www.revenue.state.ne.us**.

FOR NEBRASKA TAX ASSISTANCE

For All Tax Programs Except Motor Fuels

Contact your regional office or call **1-800-742-7474** (toll free in NE and IA)
or **1-402-471-5729**

Nebraska Department of Revenue Web site address: www.revenue.state.ne.us

A copy of the Taxpayer Bill of Rights is available by calling any of our regional offices or visiting our Web site.

SCOTTSBLUFF

Panhandle State Office Complex
4500 Avenue I, Box 1500
Scottsbluff, Nebraska 69363-1500
Telephone (308) 632-1200

NORTH PLATTE

Craft State Office Building
200 South Silber Street
North Platte, Nebraska 69101-4200
Telephone (308) 535-8250

GRAND ISLAND

TierOne Bank Building, Suite 460
1811 West Second Street
Grand Island, Nebraska 68803-5469
Telephone (308) 385-6067

NORFOLK

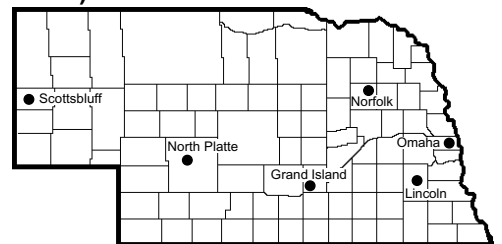
304 North 5th Street, Suite "D"
Norfolk, Nebraska 68701-4091
Telephone (402) 370-3333

OMAHA

Nebraska State Office Building
1313 Farnam-on-the-Mall
Omaha, Nebraska 68102-1871
Telephone (402) 595-2065

LINCOLN

Nebraska State Office Building
301 Centennial Mall South
Lincoln, Nebraska 68509-4818
Telephone (402) 471-5729



For Motor Fuels tax programs only call toll free 1-800-554-3835 (Lincoln residents call 471-5730).

Hearing-impaired individuals may call the Text Telephone (TT) at 1-800-382-9309. TDD (Telecommunications Device for the Deaf) is designated by the use of "TT," which is consistent with the Americans with Disabilities Act.

Dear Nebraska Taxpayer:

This letter has been prepared by the Nebraska Department of Revenue to explain the new requirements for sales tax imposed on billings by a contractor. Beginning July 1, 2004, Option 2 and Option 3 contractors are required to **change** the manner in which they tax contractor labor. The tax will be computed based on the rate in effect at the location of the project.

For Option 2 and Option 3 contractors, the amount of contractor labor subject to tax is **statutorily set** at 60 percent of the sales price for building materials and construction services, with a statutorily determined allowance for tax paid by the contractor on its building materials. Based on these statutory requirements, this department has calculated percentages which Option 2 and Option 3 contractors must use to determine the taxable amount on each billing, **regardless** of the individual amounts listed on the contractor's invoice (e.g., materials, labor, equipment rental, etc.). These percentages take into account the allowance for tax paid by the contractor on its building materials. The percentages for each sales tax rate (state **and** local) are listed below.

Total Tax Rate (at project location)	Contractor Labor Percentage
7.0%	57.2%
6.5%	57.4%
6.0%	57.6%
5.5%	57.8%

Example: An Option 2 or Option 3 contractor is hired to replace the siding on a customer's home. The project is located in a city with a 1.5 percent local sales tax rate, for a total sales tax rate of 7.0 percent. A sample billing for this project is shown below:

Materials (siding and insulation)	\$5,000.00
Scaffold rental	200.00
Labor	8,000.00
Total Sales Price	\$13,200.00
Taxable Contractor Labor ($\$13,200.00 \times 57.2\% = \$7,550.00$)	
Sales Tax ($\$7,550.00 \times 7.0\%$)	528.50
Total Amount Due	\$13,728.50

Option 2 and Option 3 contractors will not collect sales tax on contractor labor performed in conjunction with projects for the first or original construction of a building; the addition of an entire room or floor to an existing building; the completion of an unfinished portion of an existing building or structure; the restoration, reconstruction, or replacement of a building or structure damaged or destroyed by fire, flood, tornado, lightning, explosion, ice storm, or natural disaster; the construction, repair, or annexation of any structure used for the generation, transmission, or distribution of electricity; or a major renovation of an existing building or unit of an existing building. These are all considered exempt contractor labor projects.

Option 1 contractors are statutorily barred from using the contractor labor percentages required for Option 2 and Option 3 contractors and will **continue** to collect sales tax on the **total amount billed** for taxable labor projects. On exempt contractor labor projects, Option 1 contractors will only collect sales tax on the sales price of their building materials, provided the materials are separately stated on the invoice.

For additional information regarding the taxation of amounts billed by contractors, visit our Web site at www.revenue.state.ne.us or contact Taxpayer's Assistance at 1-800-742-7474 (toll free in NE and IA) or 1-402-471-5729.